

Courage Underwriting Limited
Annual Report and Financial Statements
31 December 2018



Company registration number: 3640182

Courage Underwriting Limited

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Courage Underwriting Limited

Company Information

Directors

Walter James Courage
Nomina Plc
Camilla Tanier Stanier

Company Secretary

Hampden Legal Plc

Registered Office

5th Floor, 40 Gracechurch Street
London
EC3V 0BT

Auditors

PKF Littlejohn LLP
Statutory Auditor
1 Westferry Circus
Canary Wharf
London
E14 4HD

Solicitors

Jones Day
21 Tudor Street
London
EC4Y 0DJ

Courage Underwriting Limited

Strategic Report

The Directors present their Strategic Report for the year ended 31 December 2018.

Business review and future developments

The Financial Statements incorporate the annual accounting results of the syndicates on which the Company participates for the 2016, 2017 and 2018 years of account, as well as any prior run-off years. The 2016 year closed at 31 December 2018 with a result of £54,226 (2015: £85,628). The 2017 and 2018 open underwriting accounts will normally close at 31 December 2019 and 2020.

Key performance indicators

The Directors monitor the performance of the Company by reference to the following key performance indicators:

	2018	2017
Capacity (youngest underwriting year)	886,616	793,965
Gross premium written as a % of capacity	96.3%	102.6%
Underwriting profit of latest closed year:		
as a % of capacity	7.4%	12.2%
Run-off years of account movement	-	-

Other performance indicators

As a result of the nature of this Company as a Lloyd's corporate member the majority of its activities are carried out by the syndicates in which it participates. The Company is not involved directly in the management of the syndicates' activities, including employment of syndicate staff, as these are the responsibility of the relevant managing agent. Each managing agent will also have responsibility for the environmental activities of each syndicate, although by their nature, insurers do not produce significant environmental emissions. As a result, the Directors of the Company do not consider it appropriate to monitor and report any performance indicators in relation to staff or environmental matters.

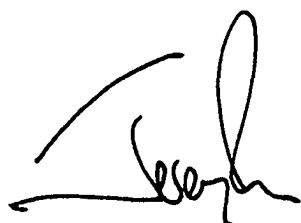
Financial risk management objectives and policies

As a corporate member of Lloyd's the majority of the risks to this Company's future cash flows arise from its participation in the results of Lloyd's syndicates. As detailed in Note 5, these risks are mostly managed by the managing agent of the syndicate. The Company's role in managing this risk is limited to selection of syndicate participations and monitoring performance of the syndicates. The Company is also directly exposed to these risks, but they are not considered material compared to the syndicate risk for the assessment of the assets, liabilities, financial position and profit or loss of the Company.

Impact of Brexit vote

Following the referendum vote for the United Kingdom to leave the EU, Lloyd's has been working together with market members to prepare for changes that are likely to arise as a result of leaving the EU. Lloyd's have noted that, although only around 11% of the market's gross written premiums arise from the EU excluding the UK, they are making preparations to maintain access to the insurance market in the EU. At this time the details of future trading with the EU in general and the impact on the Lloyd's market cannot be known, although these uncertainties, together with related economic factors including exchange rates and investment values, may have an impact on results for several years. The Directors are monitoring the Lloyd's market's preparations along with general market conditions to identify if it is appropriate to make any changes to the current strategy of the Company.

Approved by the Board of Directors on 14 August 2019 and signed on its behalf by:



Jeremy Evans for and on behalf of Nomina Plc
Director

Courage Underwriting Limited

Directors' Report

The Directors present their Report together with the audited Financial Statements of the Company for the year ended 31 December 2018.

Principal activities

The principal activity of the Company is that of trading as a Lloyd's corporate capital member. The Company continues to trade in 2019.

Results and dividends

The results for the year are set out on pages 8 to 9 of the Financial Statements. Dividends totalling £nil were paid in the year (2017: £nil).

Directors

The Directors who served at any time during the year were as follows:

Walter James Courage
Nomina Plc
Camilla Tanier Stanier

Directors' Responsibilities Statement

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the Financial Statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have prepared the Financial Statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those Financial Statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for: such internal control as they determine necessary to enable the preparation of Financial Statements that are free from material misstatements, whether due to fraud or error; and safeguarding the assets of the Company, complying with laws and regulations, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Courage Underwriting Limited

Directors' Report (continued)

Auditor

i. PKF Littlejohn LLP has signified its willingness to continue in office as auditor.

ii. Disclosure of information to the Auditor:

In the case of each of the persons who are Directors at the time this report is approved, the following applies:

- so far as the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Approved by the Board of Directors on 14 August 2019 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'Jeremy Evans', with a large loop at the end.

Jeremy Evans for and on behalf of Nomina Plc
Director

Courage Underwriting Limited

Independent Auditor's Report

Independent Auditor's Report to the Members of Courage Underwriting Limited

Opinion

We have audited the Financial Statements of Courage Underwriting Limited (the "Company") for the year ended 31 December 2018 which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Shareholders' Equity, the Statement of Cash Flows and notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its result for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the Financial Statements is not appropriate; or
- the Directors have not disclosed in the Financial Statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Financial Statements are authorised for issue.

Other information

The other information comprises the information included in the Annual Report, other than the Financial Statements and our auditor's report thereon. The Directors are responsible for the other information. Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Courage Underwriting Limited

Independent Auditor's Report (continued)

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the Financial Statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

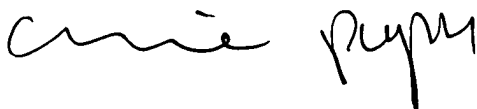
Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

A further description of our responsibilities for the audit of the Financial Statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's Members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's Members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone, other than the Company and the Company's Members as a body, for our audit work, for this report, or for the opinions we have formed.



Carmine Papa (Senior Statutory Auditor)
For and on behalf of PKF Littlejohn LLP
Statutory Auditor
14 August 2019

1 Westferry Circus
Canary Wharf
London
E14 4HD

Courage Underwriting Limited
Profit and Loss Account
Technical Account – General Business
for the year ended 31 December 2018

	Note	2018 £	2017 £
Premiums written			
Gross premiums written	6,7	854,191	814,929
Outward reinsurance premiums		(168,025)	(166,606)
Net premiums written		<u>686,166</u>	<u>648,323</u>
Change in the provision for unearned premiums	8		
Gross provision		(13,465)	1,920
Reinsurers' share		5,805	(2,929)
Net change in the provision for unearned premiums		<u>(7,660)</u>	<u>(1,009)</u>
Earned premiums, net of reinsurance		<u>678,506</u>	<u>647,314</u>
Allocated investment return transferred from the non-technical account		8,451	17,652
Other technical income, net of reinsurance		-	-
Total technical income		<u>686,957</u>	<u>664,966</u>
Claims paid			
Gross amount		(476,098)	(387,211)
Reinsurers' share		98,107	52,684
Net claims paid		<u>(377,991)</u>	<u>(334,527)</u>
Change in the provision for claims			
Gross amount		(60,420)	(253,562)
Reinsurers' share		14,755	194,107
Change in the net provision for claims	8	<u>(45,665)</u>	<u>(59,455)</u>
Claims incurred, net of reinsurance		<u>(423,656)</u>	<u>(393,982)</u>
Changes in other technical provisions, net of reinsurance		(405)	739
Net operating expenses	9	(273,905)	(281,327)
Other technical charges, net of reinsurance		-	-
Balance on the technical account for general business		<u>(11,009)</u>	<u>(9,604)</u>

The Notes are an integral part of these Financial Statements.

Courage Underwriting Limited
Profit and Loss Account
Non - Technical Account
for the year ended 31 December 2018

	Note	2018 £	2017 £
Balance on technical account for general business		(11,009)	(9,604)
Investment income	10	24,100	52,938
Unrealised gains on investments	10	18,402	53,778
Investment expenses and charges	10	(6,558)	(11,683)
Unrealised losses on investments	10	(35,999)	(27,158)
Allocated investment return transferred to the general business technical account		(8,451)	(17,652)
Other income		1,078	779
Other charges		(7,061)	(15,648)
Profit/(loss) before taxation	11	(25,498)	25,750
Tax on profit/(loss)	12	3,783	(3,253)
Profit/(loss) for the financial year		(21,715)	22,497

Statement of Comprehensive Income

	2018 £	2017 £
Profit/(loss) for the financial year	(21,715)	22,497
Other comprehensive income:		
Currency translation differences	(7,985)	(1,581)
Tax on other comprehensive income	1,357	269
Other comprehensive income for the year, net of tax	(6,628)	(1,312)
Total comprehensive income for the financial year	17 (28,343)	21,185

All amounts relate to continuing operations.

The Notes are an integral part of these Financial Statements.

Courage Underwriting Limited

Balance Sheet as at 31 December 2018

		31 December 2018			31 December 2017		
	Note	Syndicate participation £	Corporate £	Total £	Syndicate participation £	Corporate £	Total £
Assets							
Intangible assets	13	-	653	653	-	3,026	3,026
Investments							
Financial investments	14	771,316	26,000	797,316	791,204	26,000	817,204
Deposits with ceding undertakings		59	-	59	53	-	53
		771,375	26,000	797,375	791,257	26,000	817,257
Reinsurers' share of technical provisions							
Provision for unearned premiums	8	56,051	-	56,051	48,431	-	48,431
Claims outstanding	8	340,375	-	340,375	320,961	-	320,961
Other technical provisions		835	-	835	1,237	-	1,237
		397,261	-	397,261	370,629	-	370,629
Debtors							
Arising out of direct insurance operations							
- Policyholders		4	-	4	16	-	16
- Intermediaries		185,130	-	185,130	161,517	-	161,517
Arising out of reinsurance operations		332,906	67,892	400,798	281,921	72,104	354,025
Other debtors	15	77,770	449,149	526,919	33,607	385,522	419,129
		595,810	517,041	1,112,851	477,061	457,626	934,687
Other assets							
Cash at bank and in hand		37,147	33,595	70,742	36,927	65,812	102,739
Other		60,741	-	60,741	58,225	-	58,225
		97,888	33,595	131,483	95,152	65,812	160,964
Prepayments and accrued income							
Accrued interest		1,801	-	1,801	1,601	-	1,601
Deferred acquisition costs	8	103,346	-	103,346	115,816	-	115,816
Other prepayments and accrued income		4,955	-	4,955	4,099	-	4,099
		110,102	-	110,102	121,516	-	121,516
Total assets		1,972,436	577,289	2,549,725	1,855,615	552,464	2,408,079

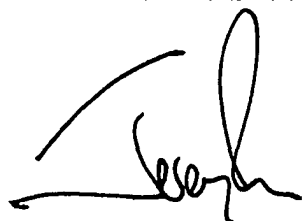
The Notes are an integral part of these Financial Statements.

Courage Underwriting Limited

Balance Sheet as at 31 December 2018

		31 December 2018			31 December 2017		
	Note	Syndicate participation £	Corporate £	Total £	Syndicate participation £	Corporate £	Total £
Liabilities and shareholders' funds							
Capital and reserves							
Called up share capital	16	-	290	290	-	290	290
Share premium account		-	-	-	-	-	-
Profit and loss account	17	(134,779)	534,465	399,686	(44,676)	472,705	428,029
Shareholders' funds		(134,779)	534,755	399,976	(44,676)	472,995	428,319
Technical provisions							
Provision for unearned premiums	8	389,069	-	389,069	378,363	-	378,363
Claims outstanding – gross amount	8	1,355,989	-	1,355,989	1,260,508	-	1,260,508
Other technical provisions		-	-	-	-	-	-
		1,745,058	-	1,745,058	1,638,871	-	1,638,871
Provisions for other risks and charges							
Deferred taxation	18	-	4,462	4,462	-	25,839	25,839
Other		697	-	697	-	-	-
		697	4,462	5,159	-	25,839	25,839
Deposits received from reinsurers		3,870	-	3,870	107	-	107
Creditors							
Arising out of direct insurance operations		27,087	-	27,087	29,887	-	29,887
Arising out of reinsurance operations		179,834	-	179,834	136,195	-	136,195
Amounts owed to credit institutions		13,863	-	13,863	2,625	-	2,625
Other creditors including taxation and social security	19	121,936	29,966	151,902	80,224	40,273	120,497
		342,720	29,966	372,686	248,931	40,273	289,204
Accruals and deferred income		14,870	8,106	22,976	12,382	13,357	25,739
Total liabilities		2,107,215	42,534	2,149,749	1,900,291	79,469	1,979,760
Total liabilities and shareholders' funds		1,972,436	577,289	2,549,725	1,855,615	552,464	2,408,079

The Financial Statements were approved and authorised for issue by the Board of Directors on 14 August 2019 and signed on its behalf by:



Jeremy Evans for and on behalf of Nomina Plc
Director

Company registration number: 3640182

The Notes are an integral part of these Financial Statements.

Courage Underwriting Limited

Statement of Changes in Shareholders' Equity for the year ended 31 December 2018

	Note	Called up share capital £	Share premium account £	Profit and loss account £	Total £
At 1 January 2017		290	-	406,844	407,134
Total comprehensive income for the year:					
Profit/(loss) for the financial year		-	-	22,497	22,497
Other comprehensive income for the year		-	-	(1,312)	(1,312)
Total comprehensive income for the year		-	-	21,185	21,185
Transactions with owners:					
Dividends paid	17,21	-	-	-	-
Proceeds from issue of shares	16	-	-	-	-
Total transactions with owners		-	-	-	-
At 31 December 2017		290	-	428,029	428,319
At 1 January 2018		290	-	428,029	428,319
Total comprehensive income for the year:					
Profit/(loss) for the financial year		-	-	(21,715)	(21,715)
Other comprehensive income for the year		-	-	(6,628)	(6,628)
Total comprehensive income for the year		-	-	(28,343)	(28,343)
Transactions with owners:					
Dividends paid	17,21	-	-	-	-
Proceeds from issue of shares	16	-	-	-	-
Total transactions with owners		-	-	-	-
At 31 December 2018		290	-	399,686	399,976

The Notes are an integral part of these Financial Statements.

Courage Underwriting Limited

Statement of Cash Flows for the year ended 31 December 2018

	2018 £	2017 £
Cash flows from operating activities		
Profit/(loss) before tax	(25,498)	25,750
Deduction of (profit)/loss attributed to syndicate transactions	(3,152)	47,908
Distribution/(collection) of closed year result from/(to) syndicates	85,270	113,115
Profit/(loss) excluding syndicate transactions	56,620	186,773
Adjustments for:		
(Increase)/decrease in debtors	(59,416)	(127,228)
Increase/(decrease) in creditors	(5,252)	(55,226)
(Profit)/loss on disposal of intangible assets	(1,078)	(779)
Amortisation of syndicate capacity	2,204	1,192
Investment income	(2,620)	(28,778)
Realised/unrealised (gains)/losses on investments	-	-
Income tax paid	(26,542)	(27,597)
Net cash inflow/(outflow) from operating activities	(36,084)	(51,643)
Cash flows from investing activities		
Investment income	2,620	28,778
Purchase of syndicate capacity	(653)	(2,204)
Proceeds from sale of syndicate capacity	1,900	779
Purchase of investments	-	-
Proceeds from sale of investments	-	-
Net cash inflow/(outflow) from investing activities	3,867	27,353
Cash flows from financing activities		
Equity dividends paid	-	-
Issue of shares	-	-
Net cash inflow/(outflow) from financing activities	-	-
Net increase/(decrease) in cash and cash equivalents	(32,217)	(24,290)
Cash and cash equivalents at beginning of year	65,812	90,102
Effect of exchange rate changes on cash and cash equivalents	-	-
Cash and cash equivalents at end of year	33,595	65,812
Cash and cash equivalents comprise:		
Cash at bank and in hand	33,595	65,812
Other financial investments	-	-
Cash and cash equivalents	33,595	65,812

The Company has no control over the disposition of assets and liabilities at Lloyd's. Consequently, the Statement of Cash Flows is prepared reflecting only the movement in corporate funds, which includes transfers to and from the syndicates at Lloyd's.

The Notes are an integral part of these Financial Statements.

Courage Underwriting Limited

Notes to the Financial Statements for the year ended 31 December 2018

1. General information

The Company is a private company limited by shares that was incorporated in England and Wales and whose registered office is 40 Gracechurch Street, London, EC3V 0BT. The Company participates in insurance business as an underwriting member of various syndicates at Lloyd's.

2. Statement of compliance

These Financial Statements have been prepared in accordance with United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts", the Companies Act 2006 and Schedule 3 of the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations, relating to insurance.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these Financial Statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Basis of preparation

The Financial Statements have been prepared on a going concern basis, under the historical cost basis of accounting, as modified by the revaluation of certain financial instruments measured at fair value through profit or loss.

The preparation of Financial Statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Statements are disclosed in Note 4.

Going concern

The Company participates as an underwriting member of Lloyd's. Its underwriting is supported by Funds at Lloyd's, either made available by the Company directly or by its members. The Directors are of the opinion that the Company has adequate resources to meet its underwriting and other operational obligations for the foreseeable future. Accordingly, the going concern concept has been adopted in the preparation of the Financial Statements.

Basis of accounting

The Financial Statements have been prepared using the annual basis of accounting. Under the annual basis of accounting a result is determined at the end of each accounting period, reflecting the profit or loss from providing insurance coverage during that period and any adjustments to the profit or loss of providing insurance cover during earlier accounting periods.

Amounts reported in the general business technical account relate to movements in the period in respect of all relevant years of account of the syndicates on which the Company participates.

Assets and liabilities arising as a result of the underwriting activities are mainly controlled by the syndicates' managing agents. Accordingly, these assets and liabilities have been shown separately in the Balance Sheet as "Syndicate participation". Other assets and liabilities are shown as "Corporate". The syndicate assets are held subject to trust deeds for the benefit of the syndicates' insurance creditors.

The information included in these Financial Statements in respect of the syndicates has been supplied by managing agents based upon the various accounting policies they have adopted. The following describes the policies they have adopted:

General business

i. Premiums

Premiums written comprise the total premiums receivable in respect of business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified to the syndicates on which the Company participates, less an allowance for cancellations. All premiums are shown gross of commission payable to intermediaries and exclude taxes and duties levied on them.

Courage Underwriting Limited

Notes to the Financial Statements (continued) for the year ended 31 December 2018

3. Summary of significant accounting policies (continued)

ii. Unearned premiums

Written premium is earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the Balance Sheet date, calculated on a time apportionment basis having regard where appropriate, to the incidence of risk. The specific basis adopted by each syndicate is determined by the relevant managing agent.

iii. Deferred acquisition costs

Acquisition costs, which represent commission and other related expenses, are deferred over the period in which the related premiums are earned.

iv. Reinsurance premiums

Managing agents enter into reinsurance contracts on behalf of syndicates, in the normal course of business, in order to limit the potential losses arising from certain exposures. Reinsurance premium costs are allocated by the managing agent of each syndicate to reflect the protection arranged in respect of the business written and earned.

v. Claims incurred and reinsurers' share

Claims incurred comprise claims and settlement expenses (both internal and external) occurring in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and settlement expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.

The provision for claims outstanding comprises amounts set aside for claims notified and claims incurred but not yet reported (IBNR). The amount included in respect of IBNR is based on statistical techniques of estimation applied by each syndicate's in-house reserving team and reviewed by external consulting actuaries. These techniques generally involve projecting from past experience the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. The provision for claims also includes amounts in respect of internal and external claims handling costs. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions.

The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to each syndicate's reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. Each syndicate uses a number of statistical techniques to assist in making these estimates.

Accordingly the two most critical assumptions made by each syndicate's managing agent as regards claims provisions are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used including pricing models for recent business are reasonable indicators of the likely level of ultimate claims to be incurred.

The level of uncertainty with regard to the estimations within these provisions generally decreases with time as the exposure period recedes. In addition the nature of short tail claims such as property where claims are typically notified and settled within a short period of time will normally have less uncertainty after a few years than long tail risks such as some liability business where it may be several years before claims are fully advised and settled. In addition to these factors if there are disputes regarding coverage under policies or changes in the relevant law regarding a claim this may increase the uncertainty in the estimation of the outcomes.

The assessment of these provisions is usually the most subjective aspect of an insurer's accounts and may result in greater uncertainty within an insurer's accounts than within those of many other businesses. The provisions for gross claims and related reinsurance recoveries have been assessed on the basis of the information currently available to the directors of each syndicate's managing agent. However, ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the Financial Statements for the period in which the adjustments are made. The provisions are not discounted for the investment earnings that may be expected to arise in the future on the funds retained to meet the future liabilities. The methods used, and the estimates made, are reviewed regularly.

Courage Underwriting Limited

Notes to the Financial Statements (continued) for the year ended 31 December 2018

3. Summary of significant accounting policies (continued)

vi. Unexpired risks provision

Provisions for unexpired risks are made where the costs of outstanding claims, related expenses and deferred acquisition costs are expected to exceed the unearned premium provision carried forward at the Balance Sheet date. The provision for unexpired risks is calculated separately by reference to classes of business which are managed together, after taking into account relevant investment return. The provision is made on a syndicate by syndicate basis by the relevant managing agent.

vii. Closed years of account

At the end of the third year, the underwriting account is normally closed by reinsurance into the following year of account. The amount of the reinsurance to close premium payable is determined by the managing agent, generally by estimating the cost of claims notified but not settled at 31 December, together with the estimated cost of claims incurred but not reported at that date, and an estimate of future claims handling costs.

Any subsequent variation in the ultimate liabilities of the closed year of account is borne by the underwriting year into which it is reinsured.

The payment of a reinsurance to close premium does not eliminate the liability of the closed year for outstanding claims. If the reinsuring syndicate was unable to meet its obligations, and the other elements of Lloyd's chain of security were to fail, then the closed underwriting account would have to settle outstanding claims.

The Directors consider that the likelihood of such a failure of the reinsurance to close is extremely remote, and consequently the reinsurance to close has been deemed to settle the liabilities outstanding at the closure of an underwriting account. The Company has included its share of the reinsurance to close premiums payable as technical provisions at the end of the current period, and no further provision is made for any potential variation in the ultimate liability of that year of account.

viii. Run-off years of account

Where an underwriting year of account is not closed at the end of the third year (a "run-off" year of account) a provision is made for the estimated cost of all known and unknown outstanding liabilities of that year. The provision is determined initially by the managing agent on a similar basis to the reinsurance to close. However, any subsequent variation in the ultimate liabilities for that year remains with the corporate member participating therein. As a result, any run-off year will continue to report movements in its results after the third year until such time as it secures a reinsurance to close.

ix. Net operating expenses (including acquisition costs)

Net operating costs include acquisition costs, profit and loss on exchange and other amounts incurred by the syndicates on which the Company participates.

Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts, are deferred to the extent that they are attributable to premiums unearned at the Balance Sheet date.

x. Distribution of profits and collection of losses

Lloyd's operates a detailed set of regulations regarding solvency and the distribution of profits and payment of losses between syndicates and their members. Lloyd's continues to require membership of syndicates to be on an underwriting year of account basis and profits and losses belong to members according to their membership of a year of account. Normally profits and losses are transferred between the syndicate and members after results for a year of account are finalised after 36 months. This period may be extended if a year of account goes into run-off. The syndicate may make earlier on account distributions or cash calls according to the cash flow of a particular year of account and subject to Lloyd's requirements.

Courage Underwriting Limited

Notes to the Financial Statements (continued) for the year ended 31 December 2018

3. Summary of significant accounting policies (continued)

xi. Financial assets and financial liabilities

Classification:

The accounting classification of financial assets and liabilities determines their basis of measurement and how changes in those values are presented in the Profit and Loss Account and Other Comprehensive Income. These classifications are made at initial recognition and subsequent classification is only permitted in restricted circumstances.

The syndicates' investments comprise of debt and equity investments, derivatives, cash and cash equivalents and loans and receivables. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the syndicate after deducting all of its liabilities.

Recognition:

Financial assets and liabilities are recognised when the syndicate becomes party to the contractual provisions of the instrument. In respect of the purchases and sales of financial assets, they are recognised on the trade date.

Initial measurement:

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a finance transaction, the financial asset or liability is measured at the present value of the future payments discounted at a market rate if interest for a similar debt instrument.

Subsequent measurement:

Non-current debt instruments are subsequently measured at amortised cost using the effective interest method.

Debt instruments that are classified as payable or receivable within one financial year and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received.

Other debt instruments are measured at fair value through profit or loss.

De-recognition of financial assets and liabilities:

Financial assets are derecognised when and only when a) the contractual rights to the cash flow from the financial asset expire or are settled, b) the syndicates transfer to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the syndicates, despite having retained some significant risks and rewards of ownership, have transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

Fair value measurement:

The best evidence of fair value is a quoted price for an identical asset or liability in an active market that the entity can access at the measurement date.

When quoted prices are unavailable, observable inputs developed using market data for the asset or liability, either directly or indirectly, are used to determine the fair value.

If the market for the asset is not active and there are no observable inputs, then the syndicate estimates the fair value by using unobservable inputs, i.e. where market data is unavailable.

Impairment of financial instruments measured at amortised cost or cost:

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, i.e. using the effective interest method.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised. The amount of the reversal is recognised in profit and loss immediately.

Courage Underwriting Limited

Notes to the Financial Statements (continued) for the year ended 31 December 2018

3. Summary of significant accounting policies (continued)

xi. Financial assets and financial liabilities (continued)

Offsetting:

Debtors/creditors arising from insurance/reinsurance operations shown in the Balance Sheet include the totals of all the syndicates' outstanding debit and credit transactions as processed by the Lloyd's central facility. No account has been taken of any offsets which may be applicable in calculating the net amounts due between the syndicates and each of their counterparty insureds, reinsurers or intermediaries as appropriate.

xii. Investment return

Investment return comprises all investment income, realised investment gains and losses, movements in unrealised gains and losses, net of investment expenses and charges.

Realised and unrealised gains and losses are measured by reference to the original cost of the investment if purchased in the year, or if held at the beginning of the year by reference to the fair value at that date.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on funds supporting the underwriting business.

xiii. Basis of currency translation

The presentation and functional currency of the Company is Pound Sterling, which is the currency of the primary economic environment in which it operates. Supported syndicates may have different functional currencies.

Income and expenditure in US dollars, Canadian dollars and Euros is translated at the average rate of exchange for the year. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

Monetary assets and liabilities, which according to FRS 103 are deemed to include unearned premiums and deferred acquisition costs, are translated into Pound Sterling at the rates of exchange at the Balance Sheet date.

Any non-monetary items are translated into the functional currency using the rate of exchange prevailing at the time of the transaction.

Differences arising on translation to the functional currency of the syndicates where the functional currency was not Pound Sterling are reported in the Statement of Other Comprehensive Income. All other exchange differences are reported within the Profit and Loss Account, Non-Technical Account (or the Technical Account in respect of Life syndicates).

Reinsurance at corporate level

Where considered applicable by the Directors, the Company may purchase additional reinsurance to that purchased through the syndicates. Any such reinsurance premiums and related reinsurance recoveries are treated in the same manner as described for syndicates in Note 3 (iv) and (v) above.

Taxation

The Company is taxed on its results including its share of underwriting results declared by the syndicates. These are deemed to accrue evenly over the calendar year in which they are declared. The syndicate results included in these Financial Statements are only declared for tax purposes in the calendar year following the normal closure of the year of account. No provision is made for corporation tax in relation to open years of account. However, full provision is made for deferred tax on underwriting results not subject to current corporation tax.

HM Revenue & Customs agrees the taxable results of the syndicates at a syndicate level on the basis of computations submitted by the managing agent. At the date of the approval of these Financial Statements the syndicate taxable results of years of account closed at this and at previous year ends may not have been fully agreed with HM Revenue & Customs. Any adjustments that may be necessary to the tax provisions established by the Company, as a result of HM Revenue & Customs agreement of syndicate results, will be reflected in the Financial Statements of subsequent periods.

Courage Underwriting Limited

Notes to the Financial Statements (continued) for the year ended 31 December 2018

3. Summary of significant accounting policies (continued)

Deferred taxation

Deferred tax is provided in full on timing differences which result in an obligation at the Balance Sheet date to pay more tax, or a right to pay less tax, at a future date at rates expected to apply when they crystallise, based on current tax rates and law.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax assets and liabilities have not been discounted.

Intangible assets

Costs incurred by the Company in the Corporation of Lloyd's auctions in order to acquire rights to participate on syndicates' underwriting years are included within intangible assets and amortised over a five year period beginning in the year following the purchase of the syndicate participation.

The intangible assets are reviewed for impairment where there are indicators for impairment, and any impairment is charged to the Profit and Loss Account for the period.

Cash and cash equivalents and Statement of Cash Flows

Cash and cash equivalents include deposits held at call with banks, other short-term liquid investments with original maturities of three months or less and cash in hand.

The Company has no control over the disposition of assets and liabilities at Lloyd's. Consequently, the Statement of Cash Flows is prepared reflecting only the movement in corporate funds, which includes transfers to and from syndicates at Lloyd's.

Share capital

Ordinary share capital is classified as equity. The difference between fair value of the consideration received and the nominal value of the share capital being issued, is taken to the share premium account. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of taxes, from the proceeds.

Dividend distributions to shareholders

Dividend distributions to the Company's shareholders are recognised in the Financial Statements in the period in which the dividends are approved by the shareholders. These amounts are recognised in the Statement of Changes in Shareholders' Equity.

Related party transactions

The Company discloses transactions with related parties which are not wholly owned within the same group. It does not disclose transactions with members of the same group that are wholly owned.

4. Key accounting judgements and estimation uncertainties

In applying the Company's accounting policies, the Directors are required to make judgements, estimates and assumptions in determining the carrying amounts of assets and liabilities. These judgements, estimates and assumptions are based on the best and most reliable evidence available at the time when the decisions are made, and are based on historical experience and other factors that are considered to be applicable. Due to the inherent subjectivity involved in making such judgements, estimates and assumptions, the actual results and outcomes may differ. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

The measurement of the provision for claims outstanding is the most significant judgement involving estimation uncertainty regarding amounts recognised in these Financial Statements in relation to underwriting by the syndicates and this is disclosed further in Note 5.

The management and control of each syndicate is carried out by the managing agent of that syndicate, and the Company looks to the managing agent to implement appropriate policies, procedures and internal controls to manage each syndicate.

The key accounting judgements and sources of estimation uncertainty set out below therefore relate to those made in respect of the Company only, and do not include estimates and judgements made in respect of the syndicates.

Courage Underwriting Limited

Notes to the Financial Statements (continued) for the year ended 31 December 2018

4. Key accounting judgements and estimation uncertainties (continued)

Purchased syndicate capacity:

Estimating value in use:

Where an indication of impairment of capacity values exists, the Directors will carry out an impairment review to determine the recoverable amount, which is the higher of fair value less cost to sell and value in use. The value in use calculation requires an estimate of the future cash flows expected to arise from the capacity and a suitable discount rate in order to calculate present value.

Determining the useful life of purchased syndicate capacity:

The assessed useful life of syndicate capacity is five years. This is on the basis that this is the life over which the original value of the capacity acquired is used up.

Assessing indicators of impairment:

In assessing whether there have been any indicators of impairment assets, the Directors consider both external and internal sources of information such as market conditions, counterparty credit ratings and experience of recoverability. There have been no indicators of impairments identified during the current financial year.

Recoverability of receivables:

The Company establishes a provision for receivables that are estimated not to be recoverable. When assessing recoverability, factors such as the aging of the receivables, past experience of recoverability, and the credit profile of individual or groups of customers are all considered.

5. Risk management

This section summarises the financial and insurance risks the Company is exposed to either directly at its own corporate level or indirectly via its participation in the Lloyd's syndicates.

Risk background

The syndicate's activities expose it to a variety of financial and non-financial risks. The managing agent is responsible for managing the syndicate's exposure to these risks and, where possible, introducing controls and procedures that mitigate the effects of the exposure to risk. Each year, the managing agent prepares a Lloyd's Capital Return ("LCR") for the syndicate, the purpose of this being to agree capital requirements with Lloyd's based on an agreed assessment of the risks impacting the syndicate's business, and the measures in place to manage and mitigate those risks from a quantitative and qualitative perspective. The risks described below are typically reflected in the LCR, and, typically, the majority of the total assessed value of the risks concerned is attributable to insurance risk.

The insurance risks faced by a syndicate include the occurrence of catastrophic events, downward pressure on pricing of risks, reductions in business volumes and the risk of inadequate reserving. Reinsurance risks arise from the risk that a reinsurer fails to meet their share of a claim. The management of the syndicate's funds is exposed to risks of investment, liquidity, currency and interest rates leading to financial loss. The syndicate is also exposed to regulatory and operational risks including its ability to continue to trade. However, supervision by Lloyd's provides additional controls over the syndicate's management of risks.

The Company manages the risks faced by the syndicates on which it participates by monitoring the performance of the syndicates it supports. This commences in advance of committing to support a syndicate for the following year, with a review of the business plan prepared for each syndicate by its managing agent. In addition, quarterly reports and annual accounts together with any other information made available by the managing agent are monitored and if necessary enquired into. If the Company considers that the risks being run by the syndicate are excessive it will seek confirmation from the managing agent that adequate management of the risk is in place and, if considered appropriate will withdraw support from the next underwriting year. The Company relies on advice provided by the members' agent which acts for it, who are specialists in assessing the performance and risk profiles of syndicates. The Company also mitigates its insurance risks by participating across several syndicates as detailed in Note 24.

Impact of Brexit vote:

The Brexit vote will have an impact on various risk factors, including currency risks. The Lloyd's market is in the process of developing a strategy for dealing with Brexit and the Company will monitor these developments and identify whether it needs to modify its participation in the Lloyd's market.

The analysis below provides details of the financial risks the Company is exposed to from syndicate insurance activities and at a corporate company level, as required by FRS 103. Note 8 provides further analysis of sensitivities to reserving and underwriting risks.

Courage Underwriting Limited

Notes to the Financial Statements (continued) for the year ended 31 December 2018

5. Risk management (continued)

Syndicate risks

i. Liquidity risk

The syndicates are exposed to daily calls on their available cash resources, principally from claims arising from its insurance business. Liquidity risk arises where cash may not be available to pay obligation when due, or to ensure compliance with the syndicate's obligations under the various trust deeds to which it is party.

The syndicates aim to manage their liquidity position so that they can fund claims arising from significant catastrophic events, as modelled in their Lloyd's realistic disaster scenarios ("RDS").

Although there are usually no stated maturities for claims outstanding, syndicates have provided their expected maturity of future claims settlements as follows:

2018	No stated maturity £	0-1 year £	1-3 years £	3-5 years £	>5 years £	Total £
Claims outstanding	(2)	511,374	474,128	187,014	183,475	1,355,989

2017	No stated maturity £	0-1 year £	1-3 years £	3-5 years £	>5 years £	Total £
Claims outstanding	-	442,550	490,354	171,200	156,404	1,260,508

ii. Credit risk

Credit ratings to syndicate assets emerging directly from insurance activities which are neither past due nor impaired are as follows:

2018	AAA £	AA £	A £	BBB or lower £	Not rated £	Total £
Financial investments	150,722	206,786	221,571	96,150	96,087	771,316
Deposits with ceding undertakings	-	-	-	-	59	59
Reinsurers share of claims outstanding	18,257	67,830	213,217	340	39,056	338,700
Reinsurance debtors	429	2,701	12,784	-	5,351	21,265
Cash at bank and in hand	234	1,706	24,920	4,316	5,971	37,147
	169,642	279,023	472,492	100,806	146,524	1,168,487

2017	AAA £	AA £	A £	BBB or lower £	Not rated £	Total £
Financial investments	142,841	216,608	236,300	98,479	96,976	791,204
Deposits with ceding undertakings	-	-	-	-	53	53
Reinsurers share of claims outstanding	(749)	77,935	201,248	5,957	34,154	318,545
Reinsurance debtors	-	1,905	7,263	186	2,922	12,276
Cash at bank and in hand	7,230	2,478	21,332	5,508	379	36,927
	149,322	298,926	466,143	110,130	134,484	1,159,005

Courage Underwriting Limited

Notes to the Financial Statements (continued) for the year ended 31 December 2018

5. Risk management (continued)

Syndicate risks (continued)

ii. Credit risk (continued)

Syndicate assets emerging directly from insurance activities, with reference to their due date or impaired are as follows:

2018	Neither past due nor impaired £	Past due but not impaired			Impaired £	Total £
		Less than 6 months £	Between 6 months and 1 year £	Greater than 1 year £		
Financial investments	771,316	-	-	-	-	771,316
Deposits with ceding undertakings	59	-	-	-	-	59
Reinsurers share of claims outstanding	338,700	1,706	-	-	(31)	340,375
Reinsurance debtors	21,265	7,777	127	148	(2)	29,315
Cash at bank and in hand	37,147	-	-	-	-	37,147
Insurance and other debtors	655,667	13,483	2,040	2,671	(58)	673,803
	1,824,154	22,966	2,167	2,819	(91)	1,852,015

2017	Neither past due nor impaired £	Past due but not impaired			Impaired £	Total £
		Less than 6 months £	Between 6 months and 1 year £	Greater than 1 year £		
Financial investments	791,204	-	-	-	-	791,204
Deposits with ceding undertakings	53	-	-	-	-	53
Reinsurers share of claims outstanding	318,545	2,478	-	-	(62)	320,961
Reinsurance debtors	12,276	3,373	458	378	(4)	16,481
Cash at bank and in hand	36,927	-	-	-	-	36,927
Insurance and other debtors	560,426	12,430	3,062	5,080	(51)	580,947
	1,719,431	18,281	3,520	5,458	(117)	1,746,573

iii. Interest rate and equity price risk

Interest rate risk and equity price risk are the risks that the fair value of future cash flows of financial instruments will fluctuate because of changes in market interest rates and market prices, respectively.

iv. Currency risk

The syndicates' main exposure to foreign currency risk arises from insurance business originating overseas, primarily denominated in US dollars. Transactions denominated in US dollars form a significant part of the syndicates' operations. This risk is, in part, mitigated by the syndicates maintaining financial assets denominated in US dollars against its major exposures in that currency.

The table below provides details of syndicate assets and liabilities by currency:

2018	GBP £ converted	USD £ converted	EUR £ converted	CAD £ converted	Other £ converted	Total £ converted
Total assets	270,421	1,330,526	113,695	149,681	108,113	1,972,436
Total liabilities	(375,982)	(1,412,313)	(123,518)	(102,596)	(92,806)	(2,107,215)
Surplus/(deficiency) of assets	(105,561)	(81,787)	(9,823)	47,085	15,307	(134,779)

Courage Underwriting Limited

Notes to the Financial Statements (continued) for the year ended 31 December 2018

5. Risk management (continued)

Syndicate risks (continued)

iv. Currency risk (continued)

2017	GBP £ converted	USD £ converted	EUR £ converted	CAD £ converted	Other £ converted	Total £ converted
Total assets	301,732	1,205,846	102,949	152,104	92,984	1,855,615
Total liabilities	(396,237)	(1,227,859)	(96,841)	(110,851)	(68,503)	(1,900,291)
Surplus/(deficiency) of assets	(94,505)	(22,013)	6,108	41,253	24,481	(44,676)

The impact of a 5% change in exchange rates between GBP and other currencies would be £1,461 on shareholders' funds (2017: £2,491).

Company risks

i. Investment, Credit and Liquidity risks

The significant risks faced by the Company are with regard to the investment of the available funds within its own custody. The elements of these risks are investment risk, credit risk, interest rate risk and currency risk. The main liquidity risk would arise if a syndicate had inadequate liquid resources for a large claim and sought funds from the Company to meet the claim. In order to minimise investment, credit and liquidity risk the Company's funds are invested in readily realisable short term deposits. The Company does not use derivative instruments to manage risk and, as such, no hedge accounting is applied.

ii. Currency risks

The syndicates can distribute their results in Pound Sterling, US dollars or a combination of the two. The Company is exposed to movements in the US dollar between the Balance Sheet date and the distribution of the underwriting profits and losses, which is usually in the May following the closure of a year of account.

In addition, the Company is also subject to currency fluctuations in respect of any financial investments and Funds at Lloyd's shown in the Corporate column of the Balance Sheet and as set out in Notes 14 and 15 respectively.

iii. Regulatory risks

The Company is subject to continuing approval by Lloyd's to be a member of a Lloyd's syndicate. The risk of this approval being removed is mitigated by monitoring and fully complying with all requirements in relation to membership of Lloyd's. The capital requirements to support the proposed amount of syndicate capacity for future years are subject to the requirements of Lloyd's. A variety of factors are taken into account by Lloyd's in setting these requirements including market conditions and syndicate performance and although the process is intended to be fair and reasonable, the requirements can fluctuate from one year to the next, which may constrain the volume of underwriting the Company is able to support.

iv. Operational risks

As there are relatively few transactions actually undertaken by the Company there are only limited systems and operational requirements of the Company and therefore operational risks are not considered to be significant. Close involvement of all Directors in the Company's key decision making and the fact that the majority of the Company's operations are conducted by syndicates, provides control over any remaining operational risks.

Courage Underwriting Limited

Notes to the Financial Statements (continued) for the year ended 31 December 2018

6. Class of business

2018	Gross written premiums £	Gross premiums earned £	Gross claims incurred £	Net operating expenses £	Reinsurance balance £	Total £
Direct insurance						
Accident and health	26,903	26,679	(13,543)	(11,900)	(653)	583
Motor – third party liability	2,346	2,515	(1,317)	(866)	(270)	62
Motor – other classes	35,106	36,122	(15,471)	(11,970)	(7,571)	1,110
Marine, aviation and transport	69,963	70,123	(35,373)	(26,480)	(7,490)	780
Fire and other damage to property	199,674	195,288	(123,956)	(67,383)	(18,840)	(14,891)
Third party liability	209,476	196,346	(117,247)	(71,740)	(384)	6,975
Credit and suretyship	16,776	19,362	(7,696)	(7,338)	(1,121)	3,207
Legal expenses	1,096	960	(373)	(628)	9	(32)
Assistance	-	-	-	-	-	-
Miscellaneous	7,601	6,996	(3,333)	(2,500)	(820)	343
Total direct	568,941	554,391	(318,309)	(200,805)	(37,140)	(1,863)
Reinsurance inwards	285,250	286,335	(218,209)	(73,100)	(12,218)	(17,192)
Total	854,191	840,726	(536,518)	(273,905)	(49,358)	(19,055)

2017	Gross written premiums £	Gross premiums earned £	Gross claims incurred £	Net operating expenses £	Reinsurance balance £	Total £
Direct insurance						
Accident and health	26,322	26,751	(13,918)	(12,319)	(972)	(458)
Motor – third party liability	1,988	2,481	(1,885)	(882)	43	(243)
Motor – other classes	40,160	41,358	(33,806)	(12,366)	830	(3,984)
Marine, aviation and transport	68,885	66,637	(37,702)	(26,793)	(1,812)	330
Fire and other damage to property	179,816	180,204	(156,135)	(69,065)	13,124	(31,872)
Third party liability	195,626	182,320	(106,611)	(67,897)	(4,476)	3,336
Credit and suretyship	18,108	25,847	(11,464)	(13,256)	(345)	782
Legal expenses	717	883	(581)	(476)	(10)	(184)
Assistance	-	-	-	-	-	-
Miscellaneous	6,790	6,115	(3,786)	(2,507)	(496)	(674)
Total direct	538,412	532,596	(365,888)	(205,561)	5,886	(32,967)
Reinsurance inwards	276,517	284,253	(274,885)	(75,766)	71,370	4,972
Total	814,929	816,849	(640,773)	(281,327)	77,256	(27,995)

7. Geographical analysis

	2018 £	2017 £
Direct gross premium written in:		
United Kingdom	568,941	538,412
Other EU Member States	-	-
Rest of the World	-	-
	568,941	538,412

Courage Underwriting Limited

Notes to the Financial Statements (continued) for the year ended 31 December 2018

8. Technical provisions

Movement in claims outstanding	Gross £	Reinsurance £	2018 Net £	Gross £	Reinsurance £	2017 Net £
At 1 January	1,260,508	320,961	939,547	1,099,002	211,204	887,798
Movement of reserves	60,420	14,755	45,665	253,562	194,107	59,455
Other movements	35,061	4,659	30,402	(92,056)	(84,350)	(7,706)
At 31 December	1,355,989	340,375	1,015,614	1,260,508	320,961	939,547

Movement in unearned premiums	Gross £	Reinsurance £	2018 Net £	Gross £	Reinsurance £	2017 Net £
At 1 January	378,363	48,431	329,932	407,764	56,371	351,393
Movement of reserves	13,465	5,805	7,660	(1,920)	(2,929)	1,009
Other movements	(2,759)	1,815	(4,574)	(27,481)	(5,011)	(22,470)
At 31 December	389,069	56,051	333,018	378,363	48,431	329,932

Movement in deferred acquisition costs	2018 Net £	2017 Net £
At 1 January	115,816	119,559
Movement in deferred acquisition costs	(3,537)	(891)
Other movements	(8,933)	(2,852)
At 31 December	103,346	115,816

Included within other movements are foreign exchange movements and the effect of the 2015 and prior years' technical provisions being reinsured to close into the 2016 year of account (2017: 2014 and prior years' technical provisions being reinsured to close into the 2015 year of account), to the extent where the Company's syndicate participation portfolio has changed between those two years of account.

Assumptions, changes in assumptions and sensitivity

As described in Note 5 the majority of the risks to the Company's future cash flows arise from its participation in the results of Lloyd's syndicates and are mostly managed by the managing agents of the syndicates. The Company's role in managing these risks, in conjunction with the Company's members' agent, is limited to a selection of syndicate participations and monitoring the performance of the syndicates and their managing agents.

The amounts carried by the Company arising from insurance contracts are calculated by the managing agents of the syndicates and derived from accounting information provided by the managing agents and reported upon by the syndicate auditors.

The key assumptions underlying the amounts carried by the Company arising from insurance contracts are:

- the net premiums written calculated by the managing agent are an accurate assessment of the premiums payable as a result of the risks contractually committed to up to the Balance Sheet date;
- the net unearned premiums calculated by the managing agent are an accurate assessment of the net premiums written that reflect the exposure to risks arising after the Balance Sheet date, including appropriate allowance for anticipated losses in excess of the unearned premium;
- the claims reserves calculated by the managing agents are an accurate assessment of the ultimate liabilities in respect of claims relating to events up to the Balance Sheet date;
- the potential ultimate result of run-off year results has been accurately estimated by the managing agents; and
- the values of investments and other assets and liabilities are correctly stated at their realisable values at the Balance Sheet date.

There have been no changes to these assumptions in 2018.

Courage Underwriting Limited

Notes to the Financial Statements (continued) for the year ended 31 December 2018

8. Technical provisions (continued)

The amounts carried by the Company arising from insurance contracts are sensitive to various factors as follows:

- a 5% increase/decrease in net earned premium (with all other underwriting elements assumed to change pro-rata with premium) will increase/decrease the Company's pre-tax profit/loss by £33,925 (2017: £32,366);
- a 5% increase/decrease in the managing agents' calculation of gross claims reserves will decrease/increase the Company's pre-tax profit/loss by £67,799 (2017: £63,025);
- a 5% increase/decrease in the managing agents' calculation of net claims reserves will decrease/increase the Company's pre-tax profit/loss by £50,781 (2017: £46,977).

The 5% movement has been selected to give an indication of the possible variations in the assumptions used.

The tables below show the historical gross and net claims development based on the Company's syndicate participations on all syndicate years during the year ended 31 December 2018. The table does not include the claims development on any syndicates which the Company no longer participates upon and is based on the latest participation shares during the year ended 31 December 2018.

Claims development - Gross

Underwriting pure year	After one year £000	After two years £000	After three years £000	After four years £000	After five years £000	After six years £000	After seven years £000	After eight years £000	Profit/(loss) on RITC received £000
2011	237	366	364	361	354	349	342	339	30
2012	247	353	345	333	329	322	319		41
2013	190	322	313	305	298	294			29
2014	198	331	338	330	338				41
2015	191	370	374	369					43
2016	245	459	481						
2017	466	682							
2018	364								

Claims development - Net

Underwriting pure year	After one year £000	After two years £000	After three years £000	After four years £000	After five years £000	After six years £000	After seven years £000	After eight years £000	Profit/(loss) on RITC received £000
2011	198	309	307	299	292	289	285	282	32
2012	202	299	293	281	275	272	270		39
2013	162	280	271	262	258	255			32
2014	164	286	293	286	291				34
2015	162	317	318	314					33
2016	197	372	390						
2017	324	501							
2018	280								

Courage Underwriting Limited

Notes to the Financial Statements (continued) for the year ended 31 December 2018

9. Net operating expenses	2018	2017
	£	£
Acquisition costs	189,012	196,193
Change in deferred acquisition costs	3,537	891
Administrative expenses	81,356	84,243
Loss/(profit) on exchange	-	-
	<u>273,905</u>	<u>281,327</u>

10. Investment return	2018	2017
	£	£
Investment income	14,972	13,708
Dividend income	940	2,383
Interest on cash at bank	3,378	1,191
Other interest and similar income	907	1,810
Realised gains on investments	3,903	33,846
Investment income	<u>24,100</u>	<u>52,938</u>
Investment management expenses	(961)	(1,329)
Realised losses on investments	(5,597)	(10,354)
Investment expenses and charges	<u>(6,558)</u>	<u>(11,683)</u>
Unrealised gains and losses, net	(17,597)	26,620
Total investment return	<u>(55)</u>	<u>67,875</u>

Analysed as follows:

	Investments at fair value through profit or loss £	Investments available for sale £	2018 Total £	Investments at fair value through profit or loss £	Investments available for sale £	2017 Total £
Realised gains and losses	(1,570)	(124)	(1,694)	23,492	-	23,492
Unrealised gains and losses	(17,585)	(12)	(17,597)	26,620	-	26,620
Other relevant income	-	-	-	-	-	-
	<u>(19,155)</u>	<u>(136)</u>	<u>(19,291)</u>	<u>50,112</u>	<u>-</u>	<u>50,112</u>
Interest and similar income, net of expenses			19,236			17,763
Total investment return			<u>(55)</u>			<u>67,875</u>

Courage Underwriting Limited

Notes to the Financial Statements (continued) for the year ended 31 December 2018

11. Profit/(loss) before taxation	2018 £	2017 £
This is stated after charging:		
Key management personnel remuneration	-	-
Amortisation of syndicate capacity	2,204	1,192
Interest on bank loan and overdrafts	-	-
Interest on other loans	-	-
The Company has no employees		

The auditors, PKF Littlejohn LLP, charge a fixed fee to Nomina Plc for the provision of the audit of the Company. This fee is included within the service fee charged to the Company by Nomina Plc and equates to approximately £95 (2017: £67), (Note 22).

12. Taxation	2018 £	2017 £
Analysis of charge in year		
Current tax:		
UK corporation tax on profit/(loss) of the year	14,777	25,082
Adjustment in respect of previous years	(215)	-
Foreign tax	1,675	1,145
Total current tax	16,237	26,227
Deferred tax:		
Origination and reversal of timing differences	(20,020)	(17,808)
Change in tax rate	-	(5,166)
Total deferred tax	(20,020)	(22,974)
Tax on profit/(loss)	(3,783)	3,253

Factors affecting tax charge for year

The tax assessed for the year is different to the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%). The differences are explained below:

	2018 £	2017 £
Profit/(loss) before tax	(25,498)	25,750
Profit/(loss) multiplied by standard rate of corporation tax in the UK of 19.00% (2017: 19.25%)	(4,845)	4,957
Effects of:		
Adjustment in respect of previous years	(215)	-
Group relief claimed	-	-
Income not taxable	(51)	(404)
Permanent differences	(40)	3
Foreign tax	1,675	1,145
Rate change and other adjustments	(307)	(2,448)
Tax charge/(credit) for the year	(3,783)	3,253

The results of the Company's participation on the 2016, 2017 and 2018 years of account and the calendar year movement on 2015 and prior run-offs will not be assessed to tax until the year ended 31 December 2019, 2020 and 2021 respectively being the year after the calendar year result of each run-off year or the normal date of closure of each year of account.

Courage Underwriting Limited

Notes to the Financial Statements (continued) for the year ended 31 December 2018

13. Intangible assets	2018	2017
Purchased syndicate capacity	£	£
Cost		
At 1 January	35,638	33,434
Additions	653	2,204
Disposals	(1,027)	-
At 31 December	35,264	35,638
Amortisation		
At 1 January	32,612	31,420
Provided during the year	2,204	1,192
Disposals	(205)	-
At 31 December	34,611	32,612
Net book value		
At 31 December 2018 / 2017	653	3,026
At 31 December 2017 / 2016	3,026	2,014

14. Financial investments

The Company categorises its fair value measurement using the following three fair value hierarchy levels based on the reliability of inputs used in determining fair values as follows:

Level 1: The unadjusted quoted price in an active market for identical assets that an entity can access at the measurement date.

Level 2: Inputs other than quoted prices included in Level 1 that are observable (i.e. developed using market data) for the asset, either directly or indirectly.

Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset.

Financial investments Syndicate	Financial investments held at fair value through profit or loss				Held at amortised cost	Total
	Level 1	Level 2	Level 3	Total		
2018	£	£	£	£	£	£
Shares and other variable yield securities and units in unit trusts	43,807	67,224	2,539	113,570	-	113,570
Debt securities and other fixed income securities	206,975	439,050	-	646,025	-	646,025
Participation in investment pools	1,466	3,472	3,332	8,270	-	8,270
Loans and deposits with credit institutions	1,975	16	928	2,919	-	2,919
Derivatives	426	102	-	528	-	528
Other investments	-	4	-	4	-	4
Financial assets classified as held for sale	-	-	-	-	-	-
Fair value	254,649	509,868	6,799	771,316	-	771,316
Cost				772,593	-	772,593

Courage Underwriting Limited

Notes to the Financial Statements (continued) for the year ended 31 December 2018

14. Financial investments (continued)

Financial investments Syndicate	Financial investments held at fair value through profit or loss				Held at amortised cost £	Total £
	Level 1 £	Level 2 £	Level 3 £	Total £		
2017						
Shares and other variable yield securities and units in unit trusts	45,087	80,807	6,508	132,402	-	132,402
Debt securities and other fixed income securities	204,036	438,627	-	642,663	-	642,663
Participation in investment pools	1,917	4,110	5,294	11,321	-	11,321
Loans and deposits with credit institutions	2,222	24	835	3,081	-	3,081
Derivatives	571	1,162	-	1,733	-	1,733
Other investments	-	4	-	4	-	4
Financial assets classified as held for sale	-	-	-	-	-	-
Fair value	253,833	524,734	12,637	791,204	-	791,204
						Total £
Cost				800,550	-	800,550
Financial investments Corporate	Financial investments held at fair value through profit or loss				Held at amortised cost £	Total £
	Level 1 £	Level 2 £	Level 3 £	Total £		
2018						
Shares and other variable yield securities and units in unit trusts	-	26,000	-	26,000	-	26,000
Debt securities and other fixed income securities	-	-	-	-	-	-
Fair value	-	26,000	-	26,000	-	26,000
						Total £
Cost				26,000	-	26,000
Financial investments Corporate	Financial investments held at fair value through profit or loss				Held at amortised cost £	Total £
	Level 1 £	Level 2 £	Level 3 £	Total £		
2017						
Shares and other variable yield securities and units in unit trusts	-	26,000	-	26,000	-	26,000
Debt securities and other fixed income securities	-	-	-	-	-	-
Fair value	-	26,000	-	26,000	-	26,000
						Total £
Cost				26,000	-	26,000

Included within the Corporate figures above are financial investments denominated in non-Sterling currency. The impact of a 5% change in exchange rates between GBP and other currencies would be £nil on shareholders' funds (2017: £nil).

Courage Underwriting Limited

Notes to the Financial Statements (continued) for the year ended 31 December 2018

15. Other debtors

	2018			2017		
	Syndicate participation £	Corporate £	Total £	Syndicate participation £	Corporate £	Total £
Amounts due from group undertakings	-	-	-	-	-	-
Proprietors' loan accounts	-	-	-	-	-	-
Funds at Lloyd's	-	443,228	443,228	-	385,522	385,522
Deferred tax asset (Note 18)	-	-	-	-	-	-
Other	77,770	5,921	83,691	33,607	-	33,607
	<u>77,770</u>	<u>449,149</u>	<u>526,919</u>	<u>33,607</u>	<u>385,522</u>	<u>419,129</u>

Funds at Lloyd's ("FAL") represents assets deposited with the Corporation of Lloyd's (Lloyd's) to support the Company's underwriting activities as described in the Accounting Policies. The Company retains the rights to the economic benefit of these assets. The Company has entered into a Lloyd's Deposit Trust Deed which gives Lloyd's the right to apply these monies in settlement of any claims arising from the participation on the syndicates. These monies can only be released from the provision of this Deed with Lloyd's express permission, and only in circumstances where the amounts are either replaced by an equivalent asset, or after the expiration of the Company's liabilities in respect of its underwriting. The Company's underwriting is supported by assets made available to it by the shareholders of the Company.

Where FAL is comprised of financial investments, to meet Lloyd's requirements these investments will usually be the equivalent of Level 1 as defined in Note 14. FAL are held mainly either in Sterling or US dollar denominations and therefore are potentially exposed to the currency risk of fluctuation between the Sterling and US dollar exchange rate. The maximum exposure to a 5% movement in the Sterling and USD exchange rate will be £22,161 (2017: £19,276).

16. Share capital

Allotted, called-up and fully paid

	2018		2017	
	Issued	Value £	Issued	Value £
Ordinary £1 shares	290	290	290	290

17. Profit and loss account

	2018			2017		
	Syndicate participation £	Corporate £	Total £	Syndicate participation £	Corporate £	Total £
Retained profit/(loss) brought forward	(44,676)	472,705	428,029	117,928	288,916	406,844
Reallocate distribution	(85,270)	85,270	-	(113,115)	113,115	-
Profit/(loss) and other comprehensive income for the financial year	(4,833)	(23,510)	(28,343)	(49,489)	70,674	21,185
Equity dividends	-	-	-	-	-	-
Retained profit/(loss) carried forward	<u>(134,779)</u>	<u>534,465</u>	<u>399,686</u>	<u>(44,676)</u>	<u>472,705</u>	<u>428,029</u>

Courage Underwriting Limited

Notes to the Financial Statements (continued) for the year ended 31 December 2018

17. Profit and loss account (continued)

The result for each underwriting year of account is generated over a three year period. These Financial Statements, which cover the period from 1 January 2018 to 31 December 2018, show movements in the first twelve months of the 2018 year of account, the second twelve months of the 2017 year of account and the final twelve months of the 2016 year of account.

Future cash flows will arise when profits/(losses) are distributed/(collected) by Lloyd's after each year of account has closed. Subject to certain conditions, Lloyd's can allow the partial early release of some profits or in the event of an expect loss require advance funding prior to the year of account closing.

The cumulative profit and loss account on all open underwriting years of account is shown in the Balance Sheet under 'Syndicate participation' as detailed in the table below:

	2018	2017
	£	£
Underwriting year of account (cumulative):		
2015 after 36 months	-	85,628
2016 after 36 months / 24 months	54,226	1,204
2017 after 24 months / 12 months	(101,088)	(131,508)
2018 after 12 months	(87,917)	-
	(134,779)	(44,676)

18. Deferred taxation assets/(liabilities)

	2018	2017
	£	£
Opening balance – net	(25,839)	(49,082)
Profit and loss account (charge)/credit	20,020	22,974
Other comprehensive income (charge)/credit	1,357	269
Closing balance - net	(4,462)	(25,839)

The above net deferred tax position as at the year end is analysed as follows:

	2018	2017
	£	£
Deferred tax asset (Note 15)	-	-
Deferred tax liability	4,462	25,839
Net deferred tax balance	(4,462)	(25,839)

The deferred tax balance consists of timing differences relating to the taxation of underwriting results. Deferred tax assets are shown within Other debtors (Note 15).

19. Other creditors including taxation and social security

	2018		2017	
	Syndicate participation	Corporate	Syndicate participation	Corporate
	£	£	£	£
Corporation tax	-	14,776	-	25,082
Proprietors' loan accounts	-	15,190	-	15,190
Third party funds	-	-	-	-
Other creditors	121,936	-	80,224	1
Amount due to group undertakings	-	-	-	-
	121,936	29,966	80,224	40,273
		151,902		120,497

Courage Underwriting Limited

Notes to the Financial Statements (continued) for the year ended 31 December 2018

20. Financial liabilities

The Company categorises its fair value measurement using the following three fair value hierarchy levels based on the reliability of inputs used in determining fair values as follows:

Level 1: The unadjusted quoted price in an active market for identical liabilities that an entity can access at the measurement date.

Level 2: Inputs other than quoted prices included in Level 1 that are observable (i.e. developed using market data) for the liability, either directly or indirectly.

Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the liability.

Financial liabilities Syndicate	Financial liabilities held at fair value through profit or loss				Held at amortised cost	Total
	Level 1	Level 2	Level 3	Total		
2018	£	£	£	£	£	£
Borrowings	-	-	-	-	-	-
Derivative liabilities	507	19	-	526	-	526
Financial liabilities classified as held for sale	-	-	-	-	-	-
Fair value	507	19	-	526	-	526

Financial liabilities Syndicate	Financial liabilities held at fair value through profit or loss				Held at amortised cost	Total
	Level 1	Level 2	Level 3	Total		
2017	£	£	£	£	£	£
Borrowings	-	-	-	-	-	-
Derivative liabilities	130	1	-	131	-	131
Financial liabilities classified as held for sale	-	-	-	-	-	-
Fair value	130	1	-	131	-	131

All other financial liabilities of the syndicate participation, including creditors arising out of direct insurance operations, creditors arising out of reinsurance operations and other creditors, are measured at amortised cost.

Financial liabilities - Corporate

All corporate financial liabilities are measured at amortised cost.

21. Dividends

	2018	2017
	£	£
Equity dividends declared and paid	-	-

Courage Underwriting Limited

Notes to the Financial Statements (continued) for the year ended 31 December 2018

22. Related party transactions

Nomina plc, a Director of the Company, provides administration services to the Company. Nomina plc charged a management fee of £2,900 (2017: £2,900) to cover all the costs of basic administration of the Company.

23. Ultimate controlling party

The Company is controlled by W J Courage and C T Stainer.

24. Syndicate participation

The principal syndicates or members' agent pooling arrangements ("MAPA") in which the Company participates as an underwriting member are as follows:

Syndicate or MAPA number	Managing agent	2019 Allocated capacity £	2018 Allocated capacity £	2017 Allocated capacity £	2016 Allocated capacity £
1729	Asta Managing Agency Limited	-	19,800	15,000	17,535
1910	Argo Managing Agency Limited	-	-	-	18,969
2014	Pembroke Managing Agency Limited	-	34,957	30,000	40,000
2689	Asta Managing Agency Limited	-	35,000	28,139	-
2988	Brit Syndicates Limited	-	25,000	22,998	-
5820	Amtrust Syndicates Limited	-	-	-	10,000
5886	Asta Managing Agency Limited	-	12,324	10,270	-
6104	Hiscox Syndicates Limited	-	21,469	21,469	21,469
6111	Catlin Underwriting Agencies Limited	-	-	-	22,927
6117	Argo Managing Agency Limited	-	47,506	40,000	28,445
7200	Members' Agents Pooling Arrangement	84,516	84,516	76,192	71,983
7201	Members' Agents Pooling Arrangement	447,681	447,681	406,739	370,842
7202	Members' Agents Pooling Arrangement	155,974	155,974	141,366	130,276
7227	Members' Agents Pooling Arrangement	-	2,389	1,792	1,792